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SUBJECT: AUSTRALIA BARELY AVOIDS NEGATIVE GROWTH

REF: A. A) CANBERRA 1036
[1](#)B. B) CANBERRA 1208

[1](#)1. (SBU) Summary. Australia's economy grew by less than 0.1% in the September quarter; excluding farms, the economy contracted 0.3%. Despite the fiscal stimulus package and aggressive interest rate cuts, contraction in the current quarter and recession in 2009 seem likely. End summary.

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[1](#)2. (U) On December 3, Australia's Bureau of Statistics released its figures for the quarter ending September 30. Australia kept on the positive side, barely. GDP growth for the quarter - most of which preceded the collapse of Lehman Brothers and the intensification of the global financial crisis - was a scant 0.06%. Excluding Australia's farm sector (where wheat output following good rains was up 14.9%), the economy actually contracted 0.3% on the quarter. This was the weakest quarter for the non-farm economy since the goods and services tax (GST) was introduced in late 2000.

GOA PUTS POSITIVE FACE ON DATA

[1](#)3. (U) Treasurer Wayne Swan put a brave face on the numbers, calling them a "positive outcome" given the "rapidly deteriorating global environment." Swan noted that growth for the year through September was still at 1.9%, compared to slowing around the world. In his statement, he said the explosion earlier this year at the natural gas plant on Varanus island in Western Australia, which disrupted exports, shaved 0.25% from GDP growth.

NEXT?

[1](#)4. (SBU) Swan admitted that Australia cannot entirely avoid the impact of international economic forces, but said Australia remained better placed than most countries to face the global financial crisis. With some justification - Australia still has room to cut interest rates (ref B), and although it appears likely to slide into a budget deficit next year, it at least began this cycle with a strong budgetary surplus, much of which went into the fiscal stimulus package (ref A) that goes into effect next week. Many observers expect that Australian GDP will decline in the current quarter, despite the fiscal stimulus package and the Reserve Bank of Australia's (RBA) aggressive interest rate cuts. One banker told econoff that he expects the credit crunch to hit the Australian economy hard. Global recession (generally accepted as already under way by Australian economists) will hit Australia's terms of trade and reduce national income, despite the aggressive GOA and RBA moves.

15. (SBU) Comment: Although the GOA continues to stick to its predictions of growth for next year, more and more observers are predicting a recession for 2009. The weakness in Australia,s top trading partners (China, Japan, United States, EU, New Zealand), declining commodity prices, and the reduction of available credit, will significantly reduce Australian growth for 2009. It is possible Australia will not have two consecutive quarters of GDP decline thus technically avoiding recession, but a poor 2009 economic performance appears inevitable. End comment.

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